

A Message to Corporation Taxpayers

Several acts enacted by the 82nd Arkansas General Assembly may affect corporations filing returns this year. Most of the Acts created or increased the benefits of currently available income tax credits. A summary of those Acts and the adoption or re-adoption of Internal Revenue Code Sections can be found on page 2 of this booklet.

This booklet contains forms and instructions needed to complete your return. If you need tax help, refer to page 4 of the booklet for telephone numbers to call.

We can process your tax return more efficiently if you will do the following:

1. Use the Income Tax Forms in this booklet.
2. Complete all lines that apply to your corporation.
3. Attach all schedules and additional required information.
4. Sign and date the return.
5. Attach the Federal Automatic Extension if applicable.
6. Attach any Arkansas approved extensions, if applicable.

We have received several requests from taxpayers that we remove the Federal Employer Identification Number (FEIN) from the mailing label. Therefore, this year's booklet will not have a taxpayer peel-off label affixed to the front of the booklet.

We appreciate your suggestions and constructive criticism. We want to provide you the best service possible. Please mail your suggestions and comments to: Manager, Corporation Income Tax Section, P. O. Box 919, Little Rock, AR 72203-0919.

Thank you,



Tim Leathers
Commissioner of Revenue



Governor Mike Huckabee

ARKANSAS 1999 Corporation Income Tax Booklet

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130-03-01

State of Arkansas
Corporation Income Tax Section
P.O. Box 919
Little Rock, Arkansas 72203-0919

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WHAT'S NEW FOR 1999

1. Act 37 of 1999 – Limited liability companies may now participate in the County and Regional Industrial Development Corporation credit. The credit now equals thirty-three and one-third percent (33 1/3%) of the actual purchase price of stock or units of interest purchased on or after 02/10/99. Existing credits may carry forward beyond 1999 subject to a three year carryforward limit.
2. Act 575 of 1999 – Effective 03/15/99, the Arkansas Economic Development Act of 1995 has been expanded to include computer businesses, motion picture companies, electronic manufacturers, office sector businesses, and corporate headquarters. Twenty-five percent (25%) of an employee's annual bonus may now be included when figuring average hourly wage.
3. Act 584 of 1999 – Effective 03/15/99, the businesses described by Act 575 above are eligible for credit under the Arkansas Economic Development Incentive Act. The definition of net new employees expands to include existing employees who transfer to a new position created as a result of the incentive plan.
4. Act 765 of 1999 – The maximum credit for surface water conversion using water for commercial or industrial purposes has increased from \$ 30,000 to \$200,000 for projects approved on or after 01/01/99.
5. Act 976 of 1999 - Effective for tax years beginning on or after 01/01/2000, creates the Emerging Energy Technology Development credit equal to 50% of the cost of purchasing or constructing a facility which designs, develops, or produces photovoltaic devices, electric vehicle equipment, or fuel cells. Any unused credit may be carried forward for 6 years.
6. Act 1036 of 1999 creates a Tuition Reimbursement tax credit equal to 30% of tuition, books, and fees reimbursed to a full-time permanent employee who is enrolled in a program of undergraduate or postgraduate education from an accredited institution of post-secondary education located in Arkansas. The credit may be used to offset up to 25% of a business' income tax liability. The credit is available for expenditures made on or after 07/30/99. There is no carry-forward for unused credits.
7. Act 1050 of 1999 - Effective 04/01/99, includes the cost of installation of water meters as part of a conversion project eligible for the Water Resource Conservation Credit.
8. Act 1126 of 1999 – Effective for tax years beginning on or after 01/01/99, permits a filing extension for taxpayers in areas declared a disaster by the President or Governor. No interest or penalty will accrue for the extension period granted by the director. It increases the threshold for imposition of underestimate penalty from \$250 to \$1,000. It allows disclosure of tax information and collection activities to authorized persons.
9. The following sections of the Internal Revenue Code of 1986 as in effect 01/01/99, that apply to corporation income tax returns, were adopted: IRC 101, 108, 162, 163, 167, 168, 170, 179, 179A, 183, 198, 264, 274, 280F Subsections (a), (b), (c), and (d), 332, 334, 336, 337, 338, 351, 354 - 358, 361, 362, 367, 368, 465, 469, 483, 582, 585, 593, 611 - 613, 613A, 614, 616, 617, 1017, 1033, 1045, 1258, 1259, 7872, Subchapter M, and Subchapter S with the exception of check-the-box. The Arkansas Codes, listed in IRC Sequence, affected are 26-51-404(b)(3), 26-51-404 (b)(11), 26-51-423, 26-51-428, 26-51-419, 26-51-424, 26-51-436, 26-51-413, 26-51-412, 26-51-443, 26-51-429, 26-51-404(b)(1) and 26-51-411(f), (g).
10. Act 1130 of 1999 - Effective 04/06/99, adds the businesses described by Act 575, summarized above, as eligible for the Enterprise Zone credit. The maximum credit per net new employee increases from \$2,000 to \$3,000. The credit may increase by a factor of 4, up to \$6,000 per net new employee in high unemployment areas.
11. Act 1134 of 1999 - Effective for tax years beginning on or after 01/01/2000, amends the Workforce Training Act to create an income tax credit based on a portion of the cost of workforce training. The credit is the lesser of 50% of the cost or a specified hourly training cost. There is no carryforward for unused credits.
12. Act 1135 of 1999 - Effective 04/06/99, adds a tourism credit available through the Arkansas Tourism Development Act. The credit is 100 times the average hourly wage up to \$3,000 per net new employee, increasing by a factor of 4 up to \$6,000 for high unemployment areas. Any unused credit may be carried forward for nine years.
13. Act 1217 of 1999 - Available for contributions made on or after 07/01/99, creates the Family Savings Initiative Act and provides an income tax credit (up to \$25,000) equal to 50% of the contribution made to an eligible non-profit organization. Any unused credit may be carried forward for three years.
14. Act 1347 of 1999 - For tax years beginning on or after 01/01/99, creates the Arkansas Public Roads Improvements Credit Act which authorizes an income tax credit for 33% of a taxpayer's contributions to the Public Roads Incentive Fund. The credit can be used against 50% of the taxpayer's income tax liability. Any unused credit may be carried forward for three years.
15. Act 1367 of 1999 - Effective 04/12/99, amends the Biotechnology Development and Training Credit to include Arkansas taxpayers engaged in the business of producing advanced biofuels (ethanol, methanol, or their derivatives) through biological means other than crop fermentation. The credit equals 30% of the cost of buildings, equipment, and licensing fees. Any unused credit may be carried forward for nine years.

IMPORTANT REMINDERS FOR 1999

1. Due to computerization it is absolutely essential that every applicable line and space on Form AR1100CT and related schedules be typed or printed including tax year, corporation name, address, city, state, zip code, telephone number, FEIN (Federal Employer Identification Number), date of incorporation, federal business code, date began business in Arkansas, and filing status (check one box only). If consolidated box 4 is checked, you must also indicate number of entities in Arkansas in the space immediately to the right of Filing Status 4 description. Consolidated filers must complete Form AR1100CT (with Schedule A if applicable) for each corporate entity and a separate Form AR1100CT for the consolidated group. **If Filing Status 4 is checked, do not check any other box.**

2. Copy of Federal Return is required.

Arkansas Code Annotated (ACA) 26-51-806(d) requires a completed copy of the corporation's Federal Corporate Income Tax Return, Form 1120 or 1120S, including all schedules and documents, be attached to the Arkansas "C" Corporation Income Tax Return, Form AR1100CT.

- (A) If the dollar amounts are the same for both the Federal and Arkansas Return, enter dollar amounts on Lines 17, 30, and 32 through 45 of the Arkansas Return and attach a completed copy of the Federal Return.
- (B) If the dollar amounts for the Arkansas Return are **NOT** the same as the dollar amounts shown on the Federal Return, prepare an Arkansas reconciliation schedule for each line item, **Lines 7 through 16 and Lines 18 through 29**, that is different and attach that schedule or schedules between the Arkansas Return and the completed copy of the Federal Return. Enter dollar amount on the appropriate line or lines for which schedules are prepared and on Lines 17, 30, and 32 through 45.
- (C) Multistate corporations, including financial institutions, must complete Schedule A, page 2 of Arkansas Form AR1100CT and page 1 of Form AR1100CT, Lines 33 through 45. Multistate corporations must attach a schedule or schedules of any adjustments shown on Schedule A, page 2, of the Arkansas Form AR1100CT in part A2 and A3. A completed copy of the multistate corporation's Federal Return is also required to be attached to the Arkansas Return.

A copy of Federal Amended Return, Form 1120X, is also required to be filed with Arkansas Amended Return AR1100CTX.

3. Signature.

The return must be signed by a **corporate officer** in the space provided on the bottom of schedule A, Page 2, of Form AR1100CT.

(Refer to General Instructions, page 5).

4. The Arkansas Corporation Income Tax Return must be organized as follows:

Other than Filing Status 4 filers:

- Arkansas Form AR1100CT (front).
(Must be signed on page 2)
- Arkansas Form AR1100CT Schedule A, if applicable.
- Arkansas approved extension, if applicable.
- Business and Incentive Tax Credit Certificates, (originals), if any.
- All other Schedules pertaining to the Arkansas Return.
- Copy of Federal Return with supporting Schedules.

Filing Status 4 filers:

- Arkansas Form AR1100CT (page 1 only) for Group.
(Must be signed on page 2)
- Arkansas Form AR1100CT for each entity (including parent) within the Group, and Schedule A, if applicable.
- Arkansas approved extension, if applicable.
- Business and Incentive Tax Credit Certificates, (originals), if any.
- All other Schedules pertaining to the Arkansas return.
- Copy of Federal Return with supporting Schedules.

5. Corporations with Filing Status 2 must complete Schedule A (Apportionment Schedule).

All percentages used in determining the apportionment factor on Schedule A must be calculated to six (6) places to the right of the decimal (example 035.333451%).

6. Corporations with Filing Status 4 (Consolidated Return) must complete a separate AR1100CT and Schedule A, if applicable, for each member with gross income from sources within Arkansas and consolidate the applicable taxable income on a Consolidated Group AR1100CT and attach a copy of the Federal Return. Each member's Arkansas Business and Incentive Tax Credit may be combined to reduce the consolidated group's total tax liability without separate entity restrictions except for the Arkansas Economic Development Credit.

7. Estimated Tax Requirements.

ACA 26-51-911 through ACA 26-51-913 requires taxpayers to file an Estimated Declaration when their liability exceeds \$1,000 for tax years beginning on or after 01/01/99, or \$250 for tax years beginning before 01/01/99. ACA 26-19-106 provides that a corporation with an estimated quarterly income tax liability equal to or greater than twenty thousand dollars (\$20,000.00) must pay the estimated quarterly income tax due by electronic funds transfer (Refer to General Instructions, page 5).

Corporations that underestimate their corporate tax liability must calculate any penalty due as applicable, on Part 2 of Form AR2220, and enter the penalty amount on page 1, Line 44 of Form AR1100CT.

8. Privately Designed Tax Forms.

Computer generated substitute tax return forms are not acceptable unless the computer generated form is approved (in advance of use) by the Manager of the Corporation Income Tax Section.

9. ACA 26-51-441 allows taxpayers to make a direct contribution to the United States Olympic Committee. Refer to page 14.
10. ACA 26-18-306 requires a taxpayer to report Internal Revenue Service corrections by filing an Arkansas amended income tax return within thirty (30) days from the receipt of notice and/or demand for payment from the IRS.
11. ACA-26-35-1101 allows taxpayers to make a direct contribution to the Arkansas Disaster Relief Income Tax Program. Refer to page 14.
12. For Business and Incentive Tax Credits, see pages 7, 8 and 9.
13. ACA 26-51-1401 et seq. requires a multistate financial institution to report its Arkansas taxable income utilizing a three-factor apportionment. Refer to page 12.
14. ACA 26-51-709 requires that the sales factor of multistate corporations (except financial institutions) be doubled and the denominator of the Arkansas factor be four (4), effective for tax years beginning on or after 01/01/95. Refer to page 10.
15. On September 4, 1997, the Arkansas Supreme Court denied petitions for rehearing in ACW, et al., v. Weiss (No. 96-894). This action finalized the June 1997 decision in which the Court ruled that the 6.5% tax rate imposed by Act 1052 of 1991 should only apply to that portion of net income exceeding \$100,000. The Department of Finance and Administration (DFA) had interpreted the 6.5% tax rate to apply to the total net income of corporations with Arkansas taxable income in excess of \$100,000.

DFA is accepting amended returns for applicable tax years in which the 6.5% tax rate was applied to all net income of the corporation. Therefore, if your corporation had net income exceeding \$100,000 and paid tax based on the 6.5% tax rate applied to all net income of the corporation for any tax year beginning on or after January 1, 1991, you may file an Arkansas amended return, form AR1100CTX, or verified claim for refund to claim a refund for the excess tax paid on the first \$100,000. Amended returns or verified claims for refund must be filed on or before five (5) years and three (3) months from the date the original return was due, including any extensions. For example, a calendar year filer's 1994 return was due on May 15, 1995, the amended return or verified claim for refund must be filed on or before August 15, 2000.

16. Enclose proper tax document with all remittance checks. Please write the FEIN on the check.
17. 1999 Corporation Income Tax Booklet instructions and most of the commonly requested forms are now on the internet. The instructions and forms may be viewed or downloaded from the following address: www.state.ar.us/dfa/. The website also has frequently asked questions with answers and regulations.
18. For questions or comments you may contact the Corporation Income Tax Section through E-Mail at Corporation.Income@rev.state.ar.us or call:

General Information: (501) 682-4775

Audit Unit: (501) 682-4776

Fax Number : (501) 682-7114

1999 State of Arkansas Domestic and Foreign Income Tax General Instructions

Who Must File

Every corporation organized or registered under the laws of this State, or having income from Arkansas sources as defined in ACA 26-51-205 (with the exception of those corporations exempted by ACA 26-51-303) must file an income tax return. Consolidated returns are permitted under certain conditions. D.I.S.C. and F.S.C. corporations are treated as regular business corporations. Business corporations, D.I.S.C. and F.S.C. corporations should use Arkansas Form AR1100CT. Small business (S) corporations with a valid Arkansas "S" election must use Form AR1100S. Life insurance companies who pay a premium tax as provided by law are exempt. Financial institutions should use Form AR1100CT.

Consolidated Returns

All corporations that are eligible members of an affiliated group filing a Federal Consolidated Corporation Income Tax Return may elect to file an Arkansas Consolidated Corporation Income Tax Return. However, only corporations in the affiliated group that have gross income from sources within the State that is subject to Arkansas income tax are eligible to file consolidated income tax returns in Arkansas.

In computing Arkansas consolidated taxable income or loss to which the tax rate is applied, the separate net income or loss of each corporation that is entitled to be included in the affiliated group will be included in the consolidated net income or loss to the extent that its net income or loss is separately apportioned or allocated to Arkansas. All corporations in the affiliated group that are eligible to file an Arkansas Consolidated Corporation Income Tax Return must consent to, and join in, the filing of the return prior to the last day for filing. The filing of the consolidated return will be considered as consent of each eligible corporation in the affiliated group.

Corporations with Filing Status 4 (Consolidated Return) must complete a separate Form AR1100CT reflecting taxable income before inter-company eliminations and adjustments, and Schedule A, if multistate, for each member with gross income from sources within Arkansas. Each member's separate Form AR1100CT must be consolidated on a group Form AR1100CT which also reflects taxable income before inter-company eliminations and adjustments, and a complete copy of the Federal return must be attached. A schedule listing each inter-company elimination and adjustment, identifying the entity by FEIN to which it applies must be submitted if this information is not clearly shown on the Federal return.

Time and Place For Filing

AR1100CT Forms are due on or before the fifteenth (15th) day of the fifth (5th) month following the close of the Corporation's tax year. This includes short period returns. Forms must be filed with the:

Department of Finance and Administration
Corporation Income Tax Section
P. O. Box 919
Little Rock, AR 72203-0919

Amended Returns

File Form AR1100CTX within three (3) years from date of filing original return, or two (2) years from date of payment of tax, whichever is later. A copy of the corporation's Federal amended return must be attached to the Arkansas amended return. All refund requests must be made on an amended return Form AR1100CTX. To obtain Form AR1100CTX contact:

Corporation Income Tax Section
P. O. Box 919
Little Rock, AR 72203-0919
or call (501) 682-4775

or download from www.state.ar.us/dfa/

Extensions of Time for Filing

If you have received an automatic Federal extension (Form 7004), the time for filing your Arkansas Corporation Income Tax Return shall be extended until the due date of your Federal Return. When filing the Arkansas AR1100CT, be sure to check the box at the top indicating that the Federal Extension Form 7004 has been filed and file the Arkansas return on or before the Federal due date. It is no longer necessary to include a copy of the Federal Form 7004. To request an initial Arkansas extension or an Arkansas extension beyond the Federal due date, complete and mail Arkansas Form AR1055, Request for Extension of Time for Filing Income Tax Returns, by the due date or, if applicable, the extended due date of the Arkansas return to the Corporation Income Tax Section. Arkansas extension(s) must be attached to the Arkansas income tax return. Interest at ten percent (10%) per annum is due on all returns (including those with extensions) if the tax is not paid by the original due date. Interest will be computed on a daily rate of .00027397. To avoid interest, any tax due payment must be made on or before the fifteenth (15th) day of the fifth (5th) month following the close of the Corporation's tax year. Attach Voucher 5 along with your check.

Period Covered

A taxpayer must calculate his Arkansas income tax liability using the same income year for Arkansas income tax purposes as used for Federal income tax purposes (ACA 26-51-402).

Signatures and Verification

The return shall be certified to by the President, Vice President, Treasurer, or other principal officer. The return of a foreign corporation having an agent in the State may be certified to by such agent. If receivers, trustees in bankruptcy, or assignees are operating the property or business of the corporation, such receivers, trustees, or assignees shall execute the return for such corporation under certification. The return must be signed in the space provided on the bottom of Schedule A, page 2 of AR1100CT. For consolidated returns, only the group Form AR1100CT must be signed.

Report of Change in Federal Taxable Income

An agreed Revenue Agent's Report (RAR) must be reported to this State within thirty (30) days after the receipt of the RAR or supplemental report reflecting correct net income of taxpayer. The RAR must be reported on amended return Form AR1100CTX. Any additional tax and interest must be paid or a refund requested if applicable. Statute of limitations will remain open for eight (8) years for assessment of tax if taxpayer fails to disclose Federal Revenue Agent's Report.

Filing Declaration of Estimated Income Tax

Every taxpayer who can reasonably expect to owe an Arkansas income tax in excess of \$1,000.00 for tax years beginning on or after 01/01/99 or \$250 for tax years beginning before 01/01/99 must make a declaration and timely pay the estimated tax in equal installments. The declaration shall be filed with the Commissioner on or before the fifteenth (15th) day of the fifth (5th) month of the income year of the taxpayer, except that taxpayers whose income from farming for the income year can reasonably be expected to amount to at least two-thirds (2/3) of the total gross income from all sources for the income year,

may file such declaration and pay the estimated tax on or before the fifteenth (15th) day of the second (2nd) month after the close of the income year or in lieu of filing any declaration, may file an income tax return and pay the tax on or before the fifteenth (15th) day of the third (3rd) month after the close of the income year. To avoid penalty, all other taxpayers must pay quarterly estimates on or before the fifteenth (15th) day of the fifth (5th) month, sixth (6th) month, ninth (9th) month of the tax year, and first (1st) month after the close of the tax year.

If the Director determines that a corporation's estimated quarterly Arkansas income tax liability exceeds twenty thousand dollars (\$20,000), the corporation is required to pay the estimated quarterly income tax payments due by electronic funds transfer (EFT). The EFT must be made no later than the day before each quarterly due date. If the corporation timely pays the estimated quarterly income tax payments by EFT, the corporation is not required to file a quarterly estimated income tax voucher. The Director's determination will be based on the corporation's average quarterly liability for the preceding tax year. Each corporation participating in EFT payments must complete an Arkansas EFT-CT Authorization form upon the State's request.

Accounting Methods

A taxpayer must calculate his Arkansas income tax liability using the same accounting method for Arkansas income tax purposes as used for Federal income tax purposes.

If a corporation changes its accounting method, attach a copy of any certification or approval received from the Internal Revenue Service authorizing the change of accounting method to the corporation's Arkansas Return (ACA 26-51-401).

Payment of Taxes

The tax should be paid by attaching to the return a check or money order payable to the order of "Department of Finance & Administration". Write the corporation's FEIN number on the check.

Do not send cash by mail, nor pay it in person, except at the:

Corporation Income Tax Section
Department of Finance and Administration
Room 213, Ledbetter Building
7th & Wolfe Streets
Little Rock, AR 72201

The tax is to be paid in full when return is filed.

Penalties

The following penalties shall be imposed:

- Failure to file timely – 5% per month not to exceed 35%.
- Failure to make timely remittance – 5% per month not to exceed 35%.
- Underestimate penalty – 10% of the amount of the underestimate.
- Failure to file returns - \$50.00.

If any part of any deficiency or tax liability is due to negligence or intentional disregard of rules and regulations, a penalty of ten percent (10%) of the total amount shall be added. Any part of any deficiency determined to be due to fraud shall be subject to a fifty percent (50%) penalty. Interest at the rate of ten percent (10%) per annum shall be assessed on all tax deficiencies.

Balance Sheets

The balance sheet submitted with the return should be prepared from the books and should agree therewith, or any differences should be reconciled. All corporations engaged in an interstate and intra-state trade or business and reporting to the Surface Transportation Board and to any national, state, municipal or other public officer, may submit copies of their balance sheet, prescribed by said Board, or state and municipal authorities, as at the beginning and end

of the taxable year.

If there are any differences between current year beginning and prior year ending balance sheets, submit schedule of reconciliation with return.

Gross Sales

Enter on Line 7 of return, the gross sales, less goods returned and any allowances or discounts from the sale price.

Cost of Goods Sold

Enter on Line 8 the cost of goods sold.

If the production, purchase, or sale of merchandise is an income producing factor in the trade or business, inventories of merchandise on hand should be taken at the beginning and end of the taxable year, which may be valued at cost or market, whichever is lower. Explain fully the method used. In case the inventories reported on the return do not agree with those shown on the balance sheet, attach a statement explaining how the difference occurred.

Gross Profits

Enter on Line 9 the gross profit which is obtained by deducting Line 8, the cost of goods sold, from Line 7, the gross sales.

Dividends

Enter on Line 10 taxable dividends only. Effective for tax years beginning on or after 01/01/97, dividends from 80% or greater directly owned subsidiaries are exempt.

Interest Income

Enter on Line 11 taxable U.S. interest only. Enter on Line 12 amounts received or credited as interest to the corporation during the tax year on bank deposits, C.D.'s, notes, mortgages, corporation bonds and all other interest including interest on out-of-state municipal bonds (out-of-state municipal bonds are taxable in Arkansas). **Attach a schedule to the Arkansas return identifying, by category, federal taxable interest not included as taxable interest on the Arkansas return.**

Gross Rents and Gross Royalties

Enter on Lines 13 and 14 all gross rents and royalties. If rents and royalties are determined to be non-taxable income, all expenses connected with earning rent and royalty income should be eliminated.

Gains from Sale of Assets

Enter on Line 15 the total net gain or loss.

Other Income

Enter on Line 16 all other taxable income for which no place is provided on the return. The holder of the ownership interest in a Financial Asset Securitization Investment Trust (FASIT) must list the net income from prohibited transactions on this line. Attach schedule explaining all items included.

Total Income

Enter on Line 17 the net amount of Lines 9 to 16 inclusive.

Compensation of Officers

Enter on Line 18 the compensation of all officers, in whatever form paid.

Enter on Line 19 all other salaries and wages paid.

Bad Debts

Enter on Line 21 debts which have been definitely ascertained to be worthless and have been charged off within the year.

Effective for tax years beginning on and after 01/01/87, the Reserve Method for computing and deducting bad debts on receivables may be used only by small banks and thrift institutions.

A debt previously charged off as bad, if subsequently collected, must be reported as income for the year in which collected.

Rent on Business Property

Enter on Line 22 rent paid for business property.

Tax Expense

Enter on Line 23 taxes paid or accrued during the taxable year. Do not include Arkansas income taxes or Federal income taxes or taxes assessed against local benefits tending to increase the value of the property assessed.

Interest

Enter on Line 24 interest paid on business indebtedness.

Contributions

Enter on Line 25 the Arkansas allowable amount of charitable contributions. Arkansas recognizes the Federal Internal Revenue Code for contributions by corporations. Arkansas contribution carryover rules are the same as federal, except for the carryforward period. A five (5) year carryforward period is allowed and is carried over separately from the NOL. No carryback of contributions is allowed.

Depreciation Expense

Enter on Line 26 depreciation expense claimed.

Section 168 (26 U.S.C. 168) of the Internal Revenue Code of 1986, in effect on 01/01/99, has been adopted for computing the depreciation deduction under Arkansas income tax law.

Section 179 (26 U.S.C. 179) of the Internal Revenue Code of 1986, in effect on 01/01/99, has been adopted to allow an election to expense certain depreciable business assets under Arkansas income tax law.

The Arkansas limit is \$19,000 for the first year expense deduction for tax years beginning on or after 01/01/99. The Arkansas limit was \$18,500 for tax years beginning on or after 01/01/98.

Expenses of Earning Tax Exempt Income

ACA 26-51-431(c) provides that no deductions shall be allowed for interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the taxes imposed by Arkansas law; expenses otherwise allowable as deductions which are related to tax exempt income other than interest; expenses otherwise allowable as deductions which are related to nonbusiness income.

Example a. (interest expense):

$$\frac{\text{avg. non-tax assets}}{\text{avg. total assets}} \times \text{interest expense} = \text{disallowed expense}$$

Example b. (non-business income):

% X non-bus. inc. = disallowed expense

Taxpayer must justify % used and submit schedule.

Note: State may increase % if justification can be made.

Depletion

Enter on Line 27 depletion claimed. Arkansas allows Federal depletion allowances as in effect 01/01/99.

Other Deductions

Enter on Line 29 other deductions authorized by law. Attach schedule explaining all items included. Pension Profit Sharing and Employee Benefits deductions remain valid deductions. Those lines were removed from Form AR1100CT to allow other modifications.

Net Operating Loss Carryover

Enter on Line 32 net operating losses from business, profession or farming. Losses must be carried forward under the following conditions:

- For years beginning on or after 01/01/87, losses must be carried over to the next succeeding taxable year and annually thereafter for a total period of five (5) years next succeeding the year of such net operating loss or until such net operating loss has been exhausted or absorbed by the taxable income of any succeeding year, whichever is earlier.
- For computing amount of NOL that will be allowed for carryforward purposes, there shall be added to gross income all non-taxable income, not required to be reported as gross income by law, less any related expenses which will otherwise be nondeductible. Multistate tax filers must follow above procedures and apportion NOL by the apportionment formula for year of loss, applying the Arkansas percentage factor for the year of loss against total apportionable loss for that year. Failure to provide (with the return) a complete schedule of net operating losses may result in disallowance of any NOL claimed. Carryback of NOL is not allowed. Contributions are not to be added to NOL and carried forward.

Net operating losses of a corporation which merges into another corporation will be allowed under the following conditions:

- The acquiring corporation must own at least eighty percent (80%) of the acquired corporation's voting stock, and
- Assets of the merged corporations must earn sufficient profits in the post-merger period to absorb the carryover losses claimed by the surviving corporation. Attach schedules of proof and computations.

Tax Liability

Enter on Line 34 the tax liability. See Tax Table on pages 15 and 16.

BUSINESS AND INCENTIVE TAX CREDITS

1. Purchase of Common Stock of a County and Regional Industrial Development Corporation

ACA 15-4-1224 allows the original purchaser of common stock of a County and Regional Industrial Development Corporation an income tax credit equal to thirty-three percent (33%), increased to thirty-three and one third percent (33 1/3%) beginning 01/01/99, of the actual purchase price of the stock. In any one tax year the credit shall not exceed fifty percent (50%) of the income tax liability, after all other credits and reductions in tax have been calculated. Any unused credit may be carried forward for the next three (3) succeeding tax years or until exhausted, whichever occurs first. ACT 37 of 1999 extended the qualifying years through year 2003 and allows Limited Liability Companies (LLC) to participate in this credit.

2. Purchase of Waste Reduction, Reuse or Recycling Machinery or Equipment

ACA 26-51-506 provides an income tax credit equal to thirty percent (30%) of the cost of approved waste reduction, reuse or recycling machinery and equipment. No other credit or deductions, except depreciation, may be claimed on that equipment. Any unused credit may be carried forward for the next three (3) succeeding years or until exhausted, whichever occurs first.

3. Enterprise Zone Credit

ACA 15-4-1704(c) authorizes an income tax credit equal to one hundred (100) times the average hourly wage paid with a maximum of \$2,000 per net new employee, \$3,000 for projects approved on or after 04/06/99. In high unemployment areas the credit increases by a factor of 4 up to \$6,000 for projects approved on or after 04/06/99. Any unused credit may be carried forward for the next four (4) succeeding tax years or until exhausted, whichever occurs first, provided the project was approved prior

to 03/25/97. If the project was approved on or after 03/25/97, any unused credit may be carried forward for the next nine (9) succeeding tax years or until exhausted, whichever occurs first. After 04/06/99 semiconductor manufacturers, computer businesses, motion picture production companies, biological research companies, corporate headquarters, and trucking terminals may participate in this act.

4. Child Care Facility

ACA 26-51-507 provides for an income tax credit of 3.9% of the annual salary of employees employed exclusively in providing child care services if the revenue to the business does not exceed the direct operating costs of the facility.

ACA 26-51-508 provides that a business which qualifies for the refund of the Gross Receipts Tax or Compensating Use Tax under ACA 26-52-516 or 26-53-132 shall be allowed an income tax credit of 3.9% of the annual salary of its employees employed exclusively in providing child care service, or a \$5,000 income tax credit for the first tax year the business provides its employees with a child care facility. This credit is for a business which operates a child care facility for its employees only. Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

5. Water Resource Conservation

(a) Water Impoundments outside and within critical areas:

ACA 26-51-1005 and 26-51-1006 provides an income tax credit equal to fifty percent (50%) of the cost of construction and installation or restoration of water impoundments or water control structures of twenty (20) acre-feet or more. The credit shall not exceed the lesser of income tax otherwise due or \$9,000. Any unused credit may be carried forward for the next nine (9) succeeding tax years or until exhausted, whichever occurs first.

(b) Surface Water Conversion:

1. Outside Critical Areas – ACA 26-51-1007 provides an income tax credit equal to ten percent (10%) of the cost incurred for the reduction of groundwater use by substitution of surface water for water used for industrial, commercial, agricultural or recreational purposes. The credit shall not exceed the lesser of income tax otherwise due or \$9,000. Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.
2. Within Critical Areas – ACA 26-51-1008 provides an income tax credit equal to fifty percent (50%) of the cost incurred for the reduction of groundwater use by substitution of surface water for water used for industrial, commercial, agricultural or recreational purposes. The credit shall not exceed the lesser of income tax otherwise due or \$9,000 for projects approved before 08/01/97 or using water for agricultural or recreational purposes. For projects using water for industrial or commercial purposes, the credit is limited to the lesser of the income tax otherwise due or \$30,000 for projects approved on or after 08/01/97 and \$200,000 for projects approved on or after 01/01/99. Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first, for projects using water for agricultural or recreational purposes. For projects approved on or after 08/01/97 and using water for industrial or commercial purposes, any unused credit may be carried forward for the next four (4) succeeding tax years or until exhausted, whichever occurs first.

(c) Land Leveling for Water Conservation:

ACA 26-51-1009 provides an income tax credit equal to ten percent (10%) of the project cost incurred for agricultural land leveling to con-

serve water. The credit shall not exceed the lesser of income tax otherwise due or \$9,000. Any unused credit may be carried forward for the next two (2) succeeding years or until exhausted, whichever occurs first.

(d) Wetland and Riparian Zone Creation and Restoration:

ACA 26-51-1505 provides for an income tax credit for any taxpayer engaged in the development or restoration of wetlands and riparian zones. The amount of credit shall be equal to the project costs not to exceed the lesser of income tax due or \$5,000. Any unused credit may be carried forward for the next nine (9) succeeding tax years or until exhausted, whichever occurs first.

Any water resource or surface water conservation project approved prior to 12/31/95 must comply with the provisions established under the Water Resource Conservation and Development Incentives Act of 1985. "Critical areas" means those areas so designated by the Arkansas Soil and Water Conservation Commission. Act 1050 of 1999 amends the definition of "project" to include the installation of water meters as a conversion project eligible for income tax credit.

6. Equipment Donation, Sale Below Cost Or Qualified Research Expenditure

(a) ACA 26-51-1102 provides an income tax credit for a taxpayer who donates or sells below cost new machinery or equipment to a Qualified Educational Institution, or a taxpayer who has qualified research expenditures under a Qualified Research Program. This credit is equal to thirty-three percent (33%) of the cost of the donation, sale below cost, or qualified expenditure.

(b) ACA 26-51-1103 limits the credit to fifty percent (50%) of the net income tax liability. Any unused credit may be carried forward for the next three (3) succeeding tax years or until exhausted, whichever occurs first.

7. Arkansas Economic Development Credit (Debt Service)

ACA 15-4-1901 et seq. provides for an income tax credit based on the average wage of the new permanent employees for new or expanding facilities that employ at least 50 new permanent employees and expend at least \$5,000,000 on the project. Effective 01/01/99, new businesses eligible for benefits include computer businesses, motion picture companies, electronic manufacturers, office sector businesses, and corporate headquarters. Twenty-five percent (25%) of the employee's annual bonus can be added to calculate the average hourly wage beginning 01/01/99. The income tax credit amount may vary according to established guidelines. The amount of income tax credit that may be taken in any tax year shall not exceed the Arkansas income tax liability resulting from the project plant or facility. The project plant or facility's income tax liability is to be computed by adding the sales, payroll and property factors of the plant or facility and dividing the sum by three (3). This percentage is multiplied by the corporation's Arkansas income tax liability to arrive at the income tax credit available to offset the income tax liability arising from the project as referenced in the financial incentive plan. Form AR1100AEDA, Income Tax Apportionment Worksheet, may be used to compute the project apportionment percentage and available income tax credit. This form may be obtained by contacting Corporation Income Tax Section, P.O. Box 919, Little Rock, AR 72203-0919.

8. Workforce Training Credit

Act 1134 of 1999 permits an income tax credit based on a portion of the cost of workforce training. If the training is in an Arkansas state-supported educational institution, the credit allowed is the lesser of one-half (1/2) of the amount paid by the company or the hourly training cost up to \$50 per instructional hour. If training is by company employees or company paid consultants, the tax credit cannot be more than \$15 per hour. There is no carryforward period for this credit. Applications for this credit are

available on or after 01/01/2000 from the Arkansas Department of Economic Development at (501) 682-7675.

9. Energy Technology Development Credit

Act 976 of 1999 allows a tax credit equal to fifty percent (50%) of the amount spent during the taxable year on a facility located in Arkansas which designs, develops or produces photovoltaic devices, electric vehicle equipment or fuel cells and is put in use after 01/01/2000. The credit allowed may not exceed the amount of the tax imposed for the taxable year reduced by all other state credits allowable. A taxpayer who receives a credit under this act for the purchase of machinery and equipment may not claim any other state income tax credit or deduction based on the purchase of this machinery and equipment other than depreciation expense. Any unused credit may be carried forward to the next six (6) succeeding tax years or until exhausted, whichever occurs first.

10. Tourism Development Credit

Act 1135 of 1999 provides for an income tax credit equal to one hundred (100) times the average hourly wage paid, up to \$3,000, for each new full-time permanent employee of a tourist attraction project approved on or after 03/01/99. In high unemployment areas this credit increases by a factor of 4 up to \$6,000 per employee. Any unused credit may be carried forward to the next nine (9) succeeding tax years or until exhausted, whichever occurs first. The tourist attraction project will be qualified through the Arkansas Department of Economic Development.

11. Youth Apprenticeship Program

ACA 26-51-509 provides for an income tax credit of \$2,000 or 10% of the wages earned by a youth apprentice, whichever is less, to a business participating in the United States Department of Labor apprenticeship program. The credit may not exceed the income tax otherwise due. Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

ACA 26-51-1601 et seq. provides for an income tax credit of \$2,000 or 10% of the wages earned by a youth apprentice, whichever is less, to a business participating in the Arkansas Vocational and Technical Education Division apprenticeship program. The occupation in which the youth apprentice is employed must not be covered by the United States Department of Labor apprenticeship program as in effect on 01/01/95. The credit may not exceed the income tax otherwise due. Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

12. Biotechnology Development And Training Credit

ACA 2-8-101 et seq. provides an income tax credit for a qualified biotechnology business that is approved through the Arkansas Department of Economic Development as follows:

- (a) Biotechnology Facility - Five percent (5%) of the cost of such facility,
- (b) Biotechnology Training - Thirty percent (30%) of the cost of Employee training or of the Higher Education Partnership,
- (c) Biotechnology Research - Twenty percent (20%) of the cost of qualified research that exceeds the cost of such research in the base year.

Act 1367 of 1999 amends the Biotechnology Development and Training Act to provide an income tax credit for an Arkansas taxpayer engaged in the business of producing advanced biofuels through biological means other than fermentation. The Act became effective 04/12/99. The credit is limited to thirty percent (30%) of the cost of the buildings, equipment, higher education and licenses necessary to manufacture advanced biofuels. These credits can be used to offset the first \$50,000 of income tax liability arising during the credit year and fifty percent (50%) of any remaining tax liability for that year. Any unused credit may be car-

ried forward for the next nine (9) succeeding years or until exhausted, whichever occurs first.

13. Tuition Reimbursement Credit

Act 1036 of 1999 permits an income tax credit equal to thirty percent (30%) of the cost of tuition reimbursed by the employer to a full-time permanent employee on or after 07/30/99. The credit cannot exceed twenty-five percent (25%) of the business' income tax liability in any tax year. There is no carryforward for this credit. This credit is administered by the Arkansas Department of Economic Development.

14. Family Savings Initiative Credit

Act 1217 of 1999, creates the Family Savings Initiative Act, effective 07/01/99, which provides a tax credit to those taxpayers who make contributions to a designated fiduciary organization created pursuant to this Act. The fiduciary will notify the Department of Human Services of the deposits and will issue a certificate to be attached to the tax return for the first year the credit is taken. The credit allowed is the lesser of the income tax due or \$25,000 per taxpayer. The total tax credit allowed for all taxpayers is \$100,000 per year. Any unused credit may be carried forward for the next three (3) succeeding tax years or until exhausted, whichever occurs first.

15. Public Road Improvement

Act 1347 of 1999 provides a tax credit for those taxpayers who contribute to the "Public Roads Incentive Fund" for the improvement of public roads. The credit is limited to thirty-three percent (33%) of the total contributions made to the fund and in any tax year is limited to fifty percent (50%) of the Arkansas tax liability after all other credits have been taken. This credit is available for tax years beginning on or after 01/01/99. Any unused credits can be carried forward for the next three (3) succeeding tax years or until the credit is exhausted, whichever occurs first. This program is administered by the Arkansas Department of Economic Development.

16. Affordable Neighborhood Housing Credit

ACA 15-5-1301 et seq. provides an income tax credit for any business firm engaged in providing affordable housing which is approved through the Arkansas Development Finance Authority. The tax credit is limited to thirty percent (30%) of the total amount invested in affordable housing assistance activities. The credit may not exceed the income tax otherwise due. Any unused credit may be carried forward for the next five (5) succeeding tax years or until exhausted, whichever occurs first.

17. Low Income Housing Credit

ACA 26-51-1702 provides an income tax credit for a taxpayer owning an interest in a qualified low income building which is approved through the Arkansas Development Finance Authority. The tax credit is computed by multiplying the Federal Low Income Housing Tax Credit for the qualified project by twenty percent (20%). The credit may not exceed the income tax otherwise due. Any unused credit may be carried forward for the next five (5) succeeding tax years or until exhausted, whichever occurs first.

The Business and Incentive Tax Credit Forms and instructions may be obtained from:

Department of Finance and Administration
Tax Credits/Special Refunds Section
P. O. Box 1272
Little Rock, AR 72203-1272
or call (501) 682-7106

Specific Instructions

For Taxpayers with Income from Sources Within and Without the State

In general, taxpayers with income derived from activities both within and without the State are required to allocate and apportion the net income under the following provision.

Business and Non-business Income Defined – Article IV 1(A) defined "Business Income" as income arising from transactions and activity in the regular course of taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's trade or business operations. In essence, all income which arises from the conduct of trade or business operations of a taxpayer is business income. Income of any type or class and from any source is business income if it arises from transactions and activity occurring in the regular course of a trade or business. In general, all transactions and activities of the taxpayer which are dependent upon or contribute to the operations of the taxpayer's economic enterprise as a whole constitute the taxpayer's trade or business and will be considered "Business Income", unless otherwise excluded by Arkansas law.

Unitary Determination of Intangible Income:

Interest, dividends [less than eighty percent (80%) directly owned], rents, royalties, and gains and losses from multistate corporations are apportionable to Arkansas if a unitary business relationship exists between the intangible income and the State of Arkansas.

The U.S. Supreme Court has identified certain factors of profitability such as functional integration, centralization of management, and economies of scale and summarized these factors in the use of the item "flow of value" to indicate the contribution made to the overall business enterprise.

Generally, a unitary business relationship will exist when an activity conducted in one state benefits and is benefited by an activity conducted in another state.

Arkansas will not accept returns filed on a unitary combined report basis.

Apportionment Formula:

For tax years beginning on or after 01/01/95 (for all multistate corporations except financial institutions, airlines, bus lines, truckers, and private railcar operators) business income is to be apportioned to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor, plus double the sales factor, and the denominator of which is four (4). If a taxpayer does not have all four (4) factors, the denominator shall be the same as the number of entries other than zero that apply to the total (everywhere) amounts of the property, payroll and sales factors. When double weighted, the sales factor counts as two (2). For tax years beginning prior to 01/01/95, the single weighted sales factor must be used. Construction companies, pipelines, publishing companies, railroads, and TV and radio broadcasters must utilize the double weighted sales factor apportionment method with factor modifications. Requirements for apportionment formulas of the businesses listed in this paragraph (except for financial institutions) are contained in the Arkansas Corporation Income Tax Regulations which may be obtained from:

Department of Finance and Administration
Corporation Income Tax Section
P.O. Box 919
Little Rock, AR 72203

or download from www.state.ar.us/dfa/

Property Factor:

The average value of real and tangible personal property owned by the taxpayer means the average of the original cost of the property at the beginning and ending of the tax period.

Property rented by the taxpayer is valued at eight (8) times the net annual rental rate.

Tangible personal property includes inventories.

Payroll Factor:

The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the taxpayer for compensation, and the denominator of which is the total compensation paid everywhere during the tax period.

Compensation is paid in this state if:

- A) the individual's service is performed entirely within the State, or
- B) the individual's service is performed both within and without the State, but the service performed without the State is incidental to the individual's service within the State, or
- C) some of the service is performed in the State and
 - 1) the base of operations or, if there is no base of operations, the place from which the service is directed or controlled, is in the State, or
 - 2) the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is in this State.

Sales Factor:

The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in this State during the tax period and the denominator of which is the total sales of the taxpayer everywhere during the tax period.

Sales of tangible personal property are in this State if:

- A) the property is delivered or shipped to a purchaser, other than the United States Government, within this State regardless of the f.o.b. point or other conditions of the sales, or
- B) the property is shipped from an office, store, warehouse, factory, or other place of storage in this State, and
 - 1) the purchaser is the United State Government, or
 - 2) the taxpayer is not taxable in the state of the purchaser.

Sales, other than sales of tangible personal property, are in this State if:

- A) the income producing activity is performed in this State, or
- B) the income producing activity is performed both within and without the State in which event the income allocable to this State shall be the percentage that is used in the formula for apportioning business income to this State.

Part B. Line 3.g. of Schedule A (the reverse side of AR1100CT) reflects the double weighting of the sales factor.

Allocated Income:

Partnership Income:

All partnership income from activities within the State shall be allocated to the State. Submit Arkansas K-1 [ACA 26-51-802(b)].

Nonbusiness Income:

The following items of income to the extent that they do not constitute business income are to be allocated to this State.

1. Rents & Royalties:

- A) Net rents and royalties from real property located in this State.
- B) Net rents and royalties from tangible personal property:
 - 1) if and to the extent that the property is used in this State, or
 - 2) in their entirety if the commercial domicile is in this State and the taxpayer is not organized under the laws of or taxable in the state in which the property is utilized.

The extent of utilization of tangible personal property in a state is determined by multiplying the rents and royalties by a fraction, the numerator of which is the number of days of physical location of the property in the state during the rental or royalty period in the taxable year; and the denominator of which is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable year. If the physical location of the property during the rental or royalty period is unknown or unascertainable by the taxpayer, tangible personal property is utilized in the state in which the property is located at the time the rental or royalty payer obtained possession.

2. Gains and Losses:

Gains and losses from sales of assets:

- A) Sales of real property located in this State.
- B) Sales of tangible personal property:
 - 1) the property had a situs in this State at the time of sale, or
 - 2) the taxpayer's commercial domicile is in this State, or
 - 3) the property has been included in depreciation which has been allocated to this State; in which event gains or losses on such sales shall be allocated on the percentage that is used in the formula for allocating income to this State.
- C) Sales of intangible personal property if the taxpayer's commercial domicile is in this State.

3. Interest and Dividends:

Interest and dividends if the taxpayer's commercial domicile is in this State.

4. Patent and Copyright Royalties:

- A) If and to the extent that the patent or copyright is utilized by the taxpayer in this State, or
- B) If and to the extent that the patent or copyright is utilized by the taxpayer in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in this State.

A copyright is utilized in a state to the extent that printing or other publications originate in the state. If the basis of receipts from copyright royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the copyright is utilized in the state in which the taxpayer's commercial domicile is located.

Change of Method:

Prior Approval Required Before Deviation From the Allocation and Apportionment Method:

If the allocation and apportionment provisions as set out above do not fairly represent the extent of the taxpayer's business activity in this State, the taxpayer may petition for, or the Commissioner of Revenue, Department of Finance and Administration may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

- A) separate accounting;
- B) the exclusion of any one or more of the factors;

- C) the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this State; or
- D) the employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

To "petition for" shall mean a formal written request.

Apportionment of Intragroup Intangible Licensing Transactions:

Regulation 1996-3 was adopted by the Department of Finance and Administration on 08/08/96, and is effective for tax years beginning on or after 01/01/96. This Regulation replaces Revenue Policy Statement 1995-2 and clarifies the calculation method for determining the sales factor in apportioning business income received from intragroup intangible licensing transactions.

The Regulation will apply to taxpayers that meet the following characteristics:

- 1. The taxpayer is a passive intangible holding company;
- 2. The taxpayer receives business income from intragroup intangible licensing transactions with one or more other members of the same group conducting business activity in Arkansas, and
- 3. At least one of the other members of the same group from which the business income is received by the taxpayer is subject to the Arkansas Income Tax Act.

The sales factor for intragroup intangible licensing transactions is modified as follows:

- 1. If the licensing agreement states a method of measuring the activity between the licensor and licensee, the numerator of the sales factor is the amount of the sales or receipts received as provided in the licensing agreement.
- 2. If the licensing agreement does not state a method of measuring the activity between the licensor and licensee, the measuring activity will be based on one of the following:
 - a. If the licensee's activity generates sales or receipts, the numerator of the sales factor will be the percentage of sales in Arkansas compared to licensee's total sales, or
 - b. If licensee's activity does not generate sales or receipts, the numerator of the sales factor will be the percentage of units produced or cost of units produced in Arkansas compared to the licensee's total units produced or total cost of units produced, or
 - c. If neither of the above methods accurately represent the licensor's business activity in Arkansas, the licensor may petition for or the Director may require another method.
- 3. If the licensing agreement states a method of measuring the activity between the licensor and licensee in addition to a specifically stated dollar amount, the numerator of the sales factor will be the stated measuring activity plus the stated dollar amount attributable to Arkansas.

This Regulation modifies the sales factor for intragroup intangible licensing transactions only, and business income from any other source should be apportioned in accordance with Arkansas Code of 1987 Annotated 26-51-709.

If a passive intangible holding company meets the above characteristics and the licensee elects to forego the intragroup intangible licensing transactions deduction, the passive intangible holding company will not be required to report the business income received from intragroup intangible licensing transactions for Arkansas income tax purposes. The licensee's election to forego the deduction will be binding unless the licensee and the passive intangible holding company submits a written petition to change the election to the Director, and the Director approves the change.

Small Business (S) Corporations

Qualifying corporations may elect to be treated as a "small business (S) corporation" for Arkansas income tax purposes. The election may be made only if the corporation meets all of the following requirements:

- 1) It has no more than seventy-five (75) shareholders. A husband and a wife (and their estates) are treated as one shareholder for this requirement. All other persons are treated as separate shareholders.
- 2) It must be a corporation organized or created under the laws of the United States or a state or territory or it is a similar association taxed as a corporation.
- 3) Its shareholders are individuals, estates and certain trusts described in IRC 1361.
- 4) It has no nonresident alien shareholders.
- 5) It has only one class of stock.
- 6) It is not an ineligible corporation as defined in IRC 1361.

For an election to be valid, all persons who are shareholders of the corporation on the first day of the corporation's taxable year or on the day of election, whichever is later, must consent to such election. The Arkansas election form is AR1103. The election is to be filed within seventy five (75) days of the beginning of the tax year. All shareholders are required to file Arkansas individual income tax returns. The annual income tax return of a small business corporation is to be submitted on Arkansas Form AR1100S.

Forms AR1100S and AR1103 can be obtained from or submitted to:

Department of Finance and Administration
Individual Income Tax Manager
P. O. Box 3628
Little Rock, AR 72203-3628
Telephone number: (501) 682-7255

Financial Institutions

In general all state and national banks, saving and loans, building and loan associations or any other entity operating as a financial institution are to be taxed under existing law. For a complete definition of "financial institution" refer to Arkansas Code Annotated (ACA) 26-51-1402.

Who must file:

- 1) A financial institution having its principal office in this State shall be taxed as a business corporation organized and existing under the laws of this State.
- 2) A financial institution having its principal office outside this State but doing business in this State, shall be taxed as a foreign business corporation doing business in this State.

This is not intended to recognize the right of a foreign financial institution to conduct any business in this State except to the extent and under the conditions permitted by any acts or any other now existing applicable laws of this State.

ACA 26-51-702 requires financial organizations having business income from business activity both within and without the State of Arkansas to apportion their net income.

ACA 26-51-426 adopted Internal Revenue Code Sections 582, 585 and 593 regarding bad debts of financial institutions.

ACA 26-51-1401 et seq. (effective for taxable years beginning on or after 01/01/96) adopted the Multistate Tax Commission regulation regarding apportionment and allocation of net income of financial institutions. It requires that a financial institution whose business activity is taxable both within and without this State to allocate and apportion its net income to this State. All business income, income which is includable in the apportionable income tax base, shall be apportioned to this State by multiplying such income by the apportionment percentage. The apportionment percentage is determined by adding the receipts factor, property factor, and payroll factor and dividing the sum by three (3).

Property Factor:

Generally, the property factor is a fraction, the numerator of which is the average value of real property and tangible personal property rented to the taxpayer that is located or used within this State during the taxable year, the average value of the taxpayer's real and tangible personal property owned that is located or used within this State during the taxable year, and the average value of the taxpayer's loans and credit card receivables that are located within this State during the taxable year, and the denominator of which is the average value of all such property located or used within and without this State during the taxable year. (Refer to ACA 26-51-1404).

Payroll Factor:

Generally, the payroll factor is a fraction, the numerator of which is the total amount paid in this State during the taxable year by the taxpayer for compensation and the denominator of which is the total compensation paid both within and without the State during the taxable year. The payroll factor shall include only that compensation which is included in the computation of the apportionable income tax base for the taxable year. (Refer to ACA 26-51-1405)

Receipts Factor:

Generally, the receipts factor is a fraction, the numerator of which is the receipts of the taxpayer in this State during the taxable year and the denominator of which is the receipts of the taxpayer within and without this State during the taxable year. The method of calculating receipts for purposes of the denominator is the same as the method used in determining receipts for purposes of the numerator. The receipts factor shall include only those receipts described herein which constitute the business income and are included in the computation of the apportionable income base for the taxable year. Financial institutions cannot double weight the receipts factor. (Refer to ACA 26-51-1403).

Exempt Organizations

Arkansas Code Annotated (ACA) 26-51-303 provides exemption from taxation for certain types or organizations.

Act 1147 of 1993 established the Non-Profit Corporation Act of 1993 and sets out filing requirements of the Secretary of State as well as action to be taken for receiving recognition of tax exempt status by the Arkansas Revenue Division. Guidelines for filing with the Secretary of State may be obtained by contacting that office at:

Arkansas Secretary of State
State Capitol Building
Little Rock, AR 72201
Telephone number: (501) 682-3409
(888) 233-0325
Website: www.sosweb.state.ar.us/

Non-profit corporations, unincorporated groups or associations shall be eligible to receive Arkansas income tax exempt status upon submitting proper documentation and application to:

Arkansas Department of Finance and Administration
Corporation Income Tax Section
P. O. Box 919
Little Rock, AR 72203-0919.

Income derived from investments made by non-profit organizations which is not for the sole purpose of providing pension and annuity benefits to members should be reported on Form AR1100CT. Attach a copy of the applicable federal form.

The following information must be submitted for review in determining income tax exempt status:

- A) Organizations with an IRS Ruling letter:
 - 1) Copy of IRS Ruling letter.
 - 2) Copy of pages 1 and 2 of IRS Form 1023 or 1024.
 - 3) Statement declaring Arkansas Code exemption.
- B) Organizations without an IRS Ruling letter:
 - 1) Arkansas Form AR1023CT.
 - 2) Copy of Articles of Incorporation, Articles of Association, copy of Trust Indenture or Agreement.
 - 3) Copy of Bylaws.

STATE OF ARKANSAS
Contributions to
The United States Olympic Committee Program
The Arkansas Disaster Relief Program

Arkansas Code Annotated 26-51-441 allows taxpayers to make a direct contribution to the United States Olympic Committee Program.

ACA 26-35-1101 allows taxpayers to make a direct contribution to the Arkansas Disaster Relief Program.

- I. If you are entitled to a refund and if you wish to make a contribution from your refund, you **must** enter the designated amount on your Corporation Income Tax Return, form AR1100CT, line 41A for the United States Olympic Committee Program and on line 41B for the Arkansas Disaster Relief Program. DO NOT use the **Contribution Coupons** below and **do not** attach a schedule to your form AR1100CT. Your refund will be reduced by the amount you designate.
- II. If you owe an additional amount and if you wish to make a contribution to one or both programs, you **must** enclose a separate check for the amount of each contribution. You **must** also complete the appropriate **Contribution Coupon** below and attach to check for designated program.

CONTRIBUTION COUPON

U.S. OLYMPIC COMMITTEE PROGRAM \$ _____

Corporation Name _____ FEIN _____

Address _____

City _____ State _____ ZIP _____

MAKE CHECK PAYABLE TO:
United States Olympic Committee Program

Mail to: Corporation Income Tax Section
P. O. Box 919
Little Rock, AR 72203-0919

CONTRIBUTION COUPON

ARKANSAS DISASTER RELIEF PROGRAM \$ _____

Corporation Name _____ FEIN _____

Address _____

City _____ State _____ ZIP _____

MAKE CHECK PAYABLE TO:
Arkansas Disaster Relief Program

Mail to: Corporation Income Tax Section
P. O. Box 919
Little Rock, AR 72203-0919

CORPORATION INCOME TAX TABLE

1. Find your income from Line 33; enter tax on Line 34.

IF YOUR INCOME IS		YOUR TAX IS	IF YOUR INCOME IS		YOUR TAX IS	IF YOUR INCOME IS		YOUR TAX IS
AS MUCH AS	BUT LESS THAN		AS MUCH AS	BUT LESS THAN		AS MUCH AS	BUT LESS THAN	
0	100	0	5,000	5,100	71	10,000	10,100	212
100	200	1	5,100	5,200	73	10,100	10,200	215
200	300	3	5,200	5,300	75	10,200	10,300	218
300	400	4	5,300	5,400	77	10,300	10,400	221
400	500	5	5,400	5,500	79	10,400	10,500	224
500	600	6	5,500	5,600	81	10,500	10,600	227
600	700	7	5,600	5,700	83	10,600	10,700	230
700	800	8	5,700	5,800	85	10,700	10,800	233
800	900	9	5,800	5,900	87	10,800	10,900	236
900	1,000	10	5,900	6,000	89	10,900	11,000	239
1,000	1,100	11	6,000	6,100	92	11,000	11,100	243
1,100	1,200	12	6,100	6,200	95	11,100	11,200	248
1,200	1,300	13	6,200	6,300	98	11,200	11,300	253
1,300	1,400	14	6,300	6,400	101	11,300	11,400	258
1,400	1,500	15	6,400	6,500	104	11,400	11,500	263
1,500	1,600	16	6,500	6,600	107	11,500	11,600	268
1,600	1,700	17	6,600	6,700	110	11,600	11,700	273
1,700	1,800	18	6,700	6,800	113	11,700	11,800	278
1,800	1,900	19	6,800	6,900	116	11,800	11,900	283
1,900	2,000	20	6,900	7,000	119	11,900	12,000	288
2,000	2,100	21	7,000	7,100	122	12,000	12,100	293
2,100	2,200	22	7,100	7,200	125	12,100	12,200	298
2,200	2,300	23	7,200	7,300	128	12,200	12,300	303
2,300	2,400	24	7,300	7,400	131	12,300	12,400	308
2,400	2,500	25	7,400	7,500	134	12,400	12,500	313
2,500	2,600	26	7,500	7,600	137	12,500	12,600	318
2,600	2,700	27	7,600	7,700	140	12,600	12,700	323
2,700	2,800	28	7,700	7,800	143	12,700	12,800	328
2,800	2,900	29	7,800	7,900	146	12,800	12,900	333
2,900	3,000	30	7,900	8,000	149	12,900	13,000	338
3,000	3,100	31	8,000	8,100	152	13,000	13,100	343
3,100	3,200	33	8,100	8,200	155	13,100	13,200	348
3,200	3,300	35	8,200	8,300	158	13,200	13,300	353
3,300	3,400	37	8,300	8,400	161	13,300	13,400	358
3,400	3,500	39	8,400	8,500	164	13,400	13,500	363
3,500	3,600	41	8,500	8,600	167	13,500	13,600	368
3,600	3,700	43	8,600	8,700	170	13,600	13,700	373
3,700	3,800	45	8,700	8,800	173	13,700	13,800	378
3,800	3,900	47	8,800	8,900	176	13,800	13,900	383
3,900	4,000	49	8,900	9,000	179	13,900	14,000	388
4,000	4,100	51	9,000	9,100	182	14,000	14,100	393
4,100	4,200	53	9,100	9,200	185	14,100	14,200	398
4,200	4,300	55	9,200	9,300	188	14,200	14,300	403
4,300	4,400	57	9,300	9,400	191	14,300	14,400	408
4,400	4,500	59	9,400	9,500	194	14,400	14,500	413
4,500	4,600	61	9,500	9,600	197	14,500	14,600	418
4,600	4,700	63	9,600	9,700	200	14,600	14,700	423
4,700	4,800	65	9,700	9,800	203	14,700	14,800	428
4,800	4,900	67	9,800	9,900	206	14,800	14,900	433
4,900	5,000	69	9,900	10,000	209	14,900	15,000	438

TAX TABLE CONTINUED

IF YOUR INCOME IS		YOUR TAX IS	IF YOUR INCOME IS		YOUR TAX IS	IF YOUR INCOME IS		YOUR TAX IS
AS MUCH AS	BUT LESS THAN		AS MUCH AS	BUT LESS THAN		AS MUCH AS	BUT LESS THAN	
15,000	15,100	443	18,500	18,600	618	22,000	22,100	793
15,100	15,200	448	18,600	18,700	623	22,100	22,200	798
15,200	15,300	453	18,700	18,800	628	22,200	22,300	803
15,300	15,400	458	18,800	18,900	633	22,300	22,400	808
15,400	15,500	463	18,900	19,000	638	22,400	22,500	813
15,500	15,600	468	19,000	19,100	643	22,500	22,600	818
15,600	15,700	473	19,100	19,200	648	22,600	22,700	823
15,700	15,800	478	19,200	19,300	653	22,700	22,800	828
15,800	15,900	483	19,300	19,400	658	22,800	22,900	833
15,900	16,000	488	19,400	19,500	663	22,900	23,000	838
16,000	16,100	493	19,500	19,600	668	23,000	23,100	843
16,100	16,200	498	19,600	19,700	673	23,100	23,200	848
16,200	16,300	503	19,700	19,800	678	23,200	23,300	853
16,300	16,400	508	19,800	19,900	683	23,300	23,400	858
16,400	16,500	513	19,900	20,000	688	23,400	23,500	863
16,500	16,600	518	20,000	20,100	693	23,500	23,600	868
16,600	16,700	523	20,100	20,200	698	23,600	23,700	873
16,700	16,800	528	20,200	20,300	703	23,700	23,800	878
16,800	16,900	533	20,300	20,400	708	23,800	23,900	883
16,900	17,000	538	20,400	20,500	713	23,900	24,000	888
17,000	17,100	543	20,500	20,600	718	24,000	24,100	893
17,100	17,200	548	20,600	20,700	723	24,100	24,200	898
17,200	17,300	553	20,700	20,800	728	24,200	24,300	903
17,300	17,400	558	20,800	20,900	733	24,300	24,400	908
17,400	17,500	563	20,900	21,000	738	24,400	24,500	913
17,500	17,600	568	21,000	21,100	743	24,500	24,600	918
17,600	17,700	573	21,100	21,200	748	24,600	24,700	923
17,700	17,800	578	21,200	21,300	753	24,700	24,800	928
17,800	17,900	583	21,300	21,400	758	24,800	24,900	933
17,900	18,000	588	21,400	21,500	763	24,900	25,000	938
18,000	18,100	593	21,500	21,600	768	(1) For Net Income \$25,000 through \$100,000, the tax is \$940 plus 6% of the excess over \$25,000. (2) For Net Income over \$100,000, the tax is \$5,440 plus 6.5% of the excess over \$100,000.		
18,100	18,200	598	21,600	21,700	773			
18,200	18,300	603	21,700	21,800	778			
18,300	18,400	608	21,800	21,900	783			
18,400	18,500	613	21,900	22,000	788			